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The Impact of Trade Libralization on Nigeria Manufacturing Sector:Empirical Evidence

Dr Igbaekemen Goddy Osa
Department of Sociology,Faculty of social & Management Sciences,Nigeria Police Academy,Wudil,Kano State.Nigeria
Email;igbaekemengoddyosa@yahoo.com

Abstract
This research work will examine in much details the concept of trade liberalization compared with protectionism and determine if it would have promoted economic growth much faster in Nigeria.lt will also examine the overview of Nigeria policy on imports and the structure of import. However, the point need be made that free trade hardly exist anywhere in the world. Perhaps it could be found within regions where economic integration is being practiced. The idea of free trade or trade liberalization only exist in concept but it is a pointer to the great benefits derived from international trade. In effect, the paper will examine the benefit of international trade to Nigeria using the manufacturing sector as a case study.
Keywords:Trade,Economy,Libralization,Protectionism and Domestic lndustries

INTRODUCTION

There are obvious gains from trade which include maximization of production, increase in welfare, increase in National in care, efficient employment of resources, widened markets among others. The gains from trade are determined by some factors such as differences in cost ratios, reciprocal demand, level of income, terms of trade. However, international trade has two approaches. Trade liberalization or protectionism. Trade liberalization means free trade. Free trade policy refers to a trade policy without any tariffs, quantitative restrictions and other devices obstructing the movement of goods between countries.Arguments advanced for free trade include maximization of output, optimum utilization of resources and optimum consumption.

Protection policy on the other hand, refers to entails protection of domestic industries from foreign competition. The aim is to impose restrictions on the imports of low- priced products in order to encourage domestic industries. This is done by the imposition of import duties, quotas or outright ban of some imported goods. The major arguments in favour of protectionism include protection of infant industries, terms of trade, anti dumping, diversification etc.Nigerian trade policy has always being that of protection. The aim of this research is to examine if trade liberalization would have been more beneficial to the country using the manufacturing sector as a case study.It would be recalled that the Structural Adjustment Programme (SAP) experimented in 1986 had trade liberalization as one of its cardinal objectives. But SAP was abandoned midway because it created more problems than it could solve.

International trade is the trade between two nations or countries. This is different from inter- regional trade which refers to trade between regions within a country. International trade has its roots in the desire of countries of the world to exploit the inherent gains from engaging in international trade which derive from the differences in national endowments of the trading partners.

The classical theory of international trade was first formulated by Robert Tonres, David Ricardo and John Stuart Mill. Their ideas relate to the theory of comparative cost or advantage. Adam Smith the first classical economist advocated the principle of absolute advantage as the basis of international trade which was discarded by Ricardo. Ricardo propounded the theory of comparative advantage which has been adopted and improved upon by modern economist like Taussiq and Haberer.

LITERATURE REVIEW

Since the path-breaking, Krueger (1978) studies of trades regimes, empirical works on trade and GNP growth have proliferated. The specific theme of trade policy and productivity growth, however, has attracted scant attention. For an excellent survey of the state of the art on the latter see Koutsoyinis (2001). Expectedly, the contribution show a sharp divide into two camps: Those who hold that trade liberalization is capable of fostering productivity growth and those who challenge this position. Effort was a seminal contribution to the literature.

Their analysis explored the impact of trade regimes on sectoral total factor productivity (TFP) growth within a quantitative framework in a study embracing Korea, Turkey and Yugoslavia with Japan as the corporate. On the strength of their analysis conducted within the preview of inter-industry difference in TFP growth at the two digit level, they concluded that substantial portion of the variation in TFP growth roles as explained by output growth allocated to output expansion and input substitution in Korea, Turkey and Yugoslavia, but interestingly not in Japan. Nishimizu and Robinson conclude that import substitution regimes thus seem to be negatively correlated with TFP change.

The studies reviewed above used as their analytical framework the traditional neoclassical theory on

trade and perfect competition, which unambiguously asserts that the effects of more trade is to increase competition and efficiency. However, in seeking to explain why intra-industry trade among similar countries had been increasing, orthodox trade theories ran into theoretical difficulties. According to mainstream – theories, international trade occurs between countries because of differences in technologies, factor endowment or tastes and therefore there are no trade creating forces if countries are the same in these respects. In reality, however, since World War II the volume of trade in similar goods among similar countries has expanded considerably. Indeed, according to Grubel and Laeyd (1975), the share of such intra industry trade in all trades is more than 50% and rising.

Thus, as a direct consequence of the increase in international linkage among national product markets, the fields of international trade and industrial organization, which had hitherto evolved separately, began to integrate. Recent frameworks have, on the one hand, introduced the role of imperfect competition and product differentiation to the explanation of international trade theory (Kruger, (1978) and on the other, have recognized the role of foreign trade in the determination of market structure, conduct and performance. A considerable body of literature has accumulated from the use of these framework and these are briefly reviewed here.

Using a Cournot – Nash model, Dixit and Norman (1980) showed that in general, the integration of two economies leads to an increase in the member of firms that is less than proportional to the size of the economy.On the empirical side, the available cross section evidence suggests that international trade favours technical efficiency. showed that tariff protection to reduce import competition could expand the number of inefficient production. Suggested that the effect of tariff protection in Canada resulted in inefficient industrial structures; other thing being equal, cost appears to be highest in the high tariff industries, which also have higher prices.

In a simultaneous equation context, Lyons (1979) confirmed that Canadian efficiency was reduced by a conjunction of scale of economics, product differentiation and existence of tariff protection. For Belgain industries, Jacqueline et al. (1980) suggested that the main impact of exposure to export markets came through making room for more efficient size sellers in the domestic market. Bloch (1974) found for 12 manufacturing industries located in six industrial countries that the export function of total shipment positively affected the extent to which plants reached their minimum efficient scale.

Much more recently, a couple of studies have emerged under the aegis of the World Bank investigating the impact of trade liberation on productivity.Conducted for Morocco, she found a strong positive correlation between trade liberation and productivity controlling for market structure. This suggested for the Morocco case, that an increase in productivity is generated not only by outward orientation (through export promotion) but by import liberation as well. Thus Haddad concluded that the experience of trade liberation in Morocco seems to have been beneficial to productivity in a manufacturing sector. On the one hand, firms with a higher level of exports, by facing more competition from abroad, have been forced to become more productive. On the other hand, import penetration also put pressure on domestic firms, driving them to increase their efficiency or exist the industry.

Also, analyzed changes in firm behaviour and productivity during trade liberation in Cote d' Ivoire. For a panel of 289 firms, she estimated market power before and after a trade reform implemented in 1985. Her findings suggest that price-cost margins fell in a number of sectors following the reform and that when productivity estimates are modified to account for changes in the price-cost margin over the period, the positive correlation between trade reforms and productivity is strengthened in some sectors and reversed in others.

Forountan's (1991) effort for Turkey cannot be ignored. He found that greater exposure to international competition generally had a beneficial effect on the Turkish industry during the 1980s. The effort of international competition, however appears to be significant mainly in the private sector, especially in trade able industries. International competition decreased the price-cost margin and increased the rate of growth of productivity in the private sector. In the public sector, higher trade penetration lowered the price-cost margin in the public enterprises that had a higher than average capital intensity but did not affect the productivity performance of the sector.

There are several possible measures of trade liberation or outward orientation and many investigators and organization (e.g; World Bank, 1987) devise their own measures. Has tried to estimate the effect on growth of the size and openness of neighbouring countries, and finds that countries, which have neighbours with large open economies, experience faster growth openness matters more than size. Being near a developed country also has a positive spill-over effect.

The doctrine that trade enhance welfare and growth has a long and distinguishes ancestry dating back at least to Adam Smith (1723-90). Smith, in his famous book. An inquiring into the nature and causes of the wealth of nations (1776), stressed the importance of trade as a vent for surplus production and as a means of widening the market thereby improving the division of labour and the level of productivity. It is worth quoting Smith directly:"Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries the surplus part of the produce of their land and labour for which there is no demand among

them, brings back in return something else for which there is a demand. It gives value to their superfluities, by exchanging them for something else, which may satisfy part of their wants and increase their enjoyments. By means of it, the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacturing from being varies to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourage them to improve its productivity powers and to augment it annual produce to the utmost and thereby to increase the real revenue of wealth and society" in the 19th century, Smith's productivity doctrine of the benefits of trade developed into an export-drive argument, particularly in the colonies, which explains why classical trade theory is often associated with colonialism.

Following Smith, David Richardo (1772 – 1823) developed the theory of comparative advantage and showed rigorously in his Principles of Political Economy and Taxation (1817) that on the assumption of perfect competition and the full employment of resources (although not made explicit), countries can reap welfare gains by specializing in the production of those goods with the lowest opportunity cost and trading the surplus of production over domestic demand, provided that the international rate of exchange between commodities lies between the domestic opportunity cost ratios. These are essentially static gains that arise from the relocation of resources from one sector to another as increased specialization based on comparative advantage, takes place.

In a major study of trade orientation, distortions and growth in development countries, Jhingan (1988) develops a model which assumes that more open economies are more efficient at absorbing exogenously generated technology. In another comprehensive study, Dollar addresses the question of whether outward oriented developing countries grow more rapidly, - taking as his sample 95 countries over the period of 1976 – 1985. Trade orientation is measured by the degree to which the real exchange rate is distorted by not reflecting differences in the price level between countries. High relative prices indicate strong protection and incentives geared to production for the home market. Taking different continents and comparing them with the successful economies of Asia, he finds that in Latin America the exchange rate was overvalued by 33 percent during this period and in Africa by 86 percent. Growth equations are estimated across countries using each country's measure of exchange rate distortion, controlling for differences in the level of investment and the variability of the exchange rate. Dollar finds that on average, trade distortion in Africa and Latin America reduced the growth of income per head by 1.5 and 2.1 percent annum. The results cannot be considered as conclusive because exchange rate distortion are likely to be correlated with other (internal) variable that impair growth performance, but they are certainly suggestive.

Evidence on adjustment costs of the effect of trade liberation on (un)employment. As described above, trade liberalization is likely to induce the relocation of workers. If obstacles to this relocation process exist, it may result in temporary unemployment in addition to the level of unemployment already prevailing in the economy, as the economy loses the value added normally generated by those idle workers. A series of studies have focused on this particular aspect of the adjustment process.

Studies of the impact of the Canada – US FTA on Canadian employment suggest that tariff cuts contributed to reduced employment during the years following the agreement but that they also contributed to dramatic productivity increases leading to important long-run efficiency gains. In the first five years following the implementation of FTA, Canada lost a staggering 390,600 jobs in the tradable sector. As a consequences, calls for the re-negotiation and abandonment of the agreement enjoy popular political support in Canada. However, show that those job losses were mainly due to economic recessions in both the US and Canada during the same period (recessions that were not caused by the FTA). In fact, as a result of the recession, exports and imports contracted over most of the five years following trade liberalization. After controlling for the recession, it appears that FTA-mandated tariff cuts accounted for only 9-14 per cent of the jobs lost over this period.

In a more recent paper on the effects of the Canada – US free trade Agreement, finds a bigger role for the tariff cuts in the employments declines. According to his estimates, close to 30 percent of the observed employment losses in manufacturing were a result of the FTA tariff cuts, as much as two-third of the 25 percent reduction in employment is estimated to have been caused by the FTA. The fact that manufacturing employment has largely rebounded since 1996 suggests that the adjustment process lasted about seven years. During this adjustment process, many workers moved to high-end manufacturing jobs, while at the same time there were dramatic productivity increase in low-end manufactures. Both aspects reflect important long-run efficiency gains from trade.

Forountain (1991) analysed the effects of trade with the newly industrialized Asian economies on the labour market of Germany, France, Italy and the United Kingdom. The analysis confirms that, despite the growing importance of this trade, problems in the European labour market cannot be explained by the increase in imports of manufactures from the Asian countries. In particular, the authors find workers' personal characteristics (gender and education) are significantly more important than exposure to import competition in explaining unemployment.A comprehensive retrospective World Bank study of trade reforms conducted in developing countries found that in eight out of nine countries manufacturing employment was higher during and

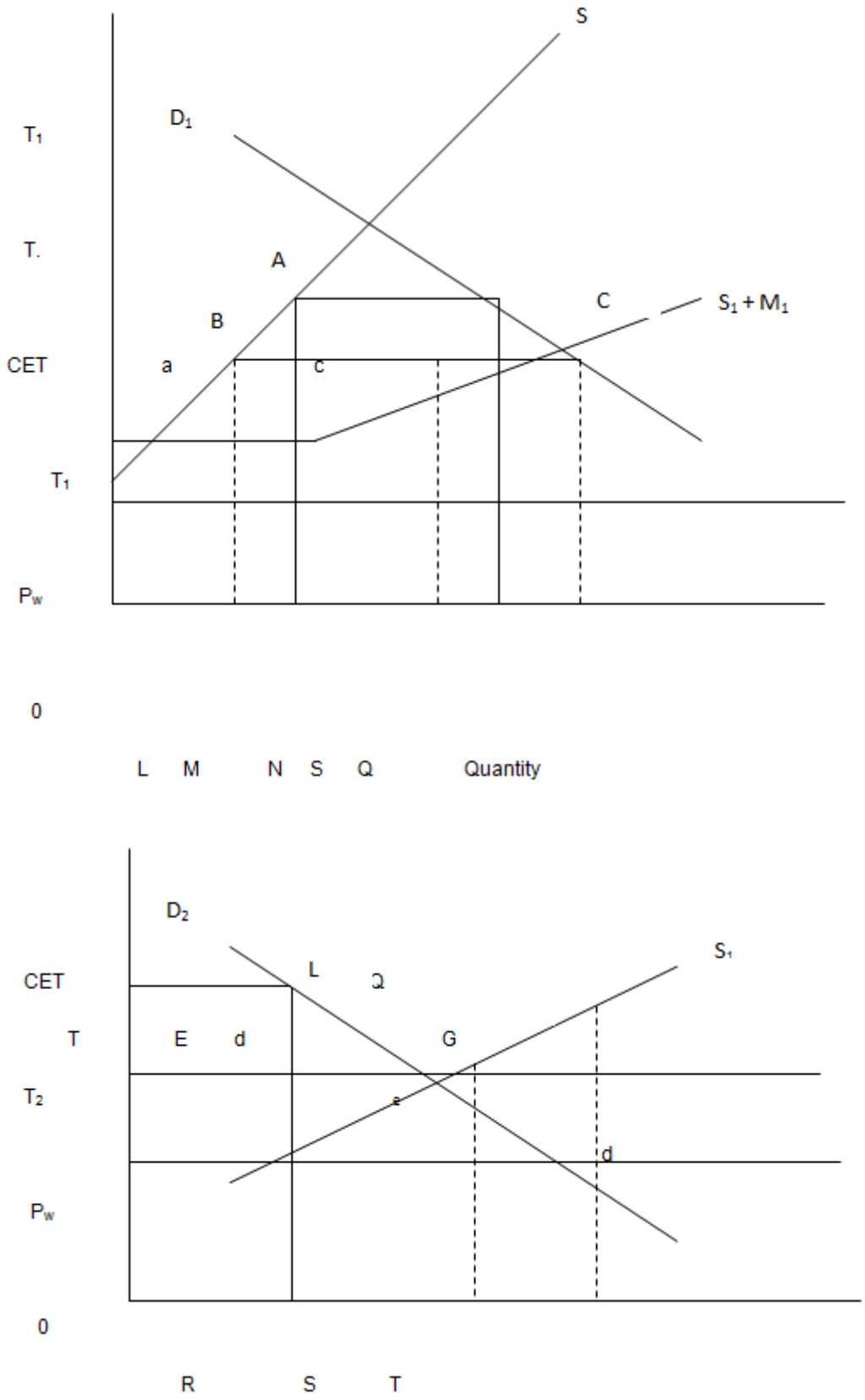
one year after the liberalization period than before . Only in Chile did manufacturing employment decrease significantly during and after trade liberation. It has been argued, however, that institutional factors rather than trade liberalization explain this development. This view was confirmed by analysis of Jhingan (1996), who find that the effects of working experience and schooling outweigh the effects of trade liberalization on a Chilean worker's probability of becoming unemployment, as well as on duration of unemployment.

Chete and Adenikinju (1994) investigated labour market responses to trade liberalization in Mauritius. They showed that manufacturing employment increased significantly in the period following the 1983 trade liberalization. Though employment increases in the long-run exceeded those that occurred immediately after the trade liberalization, the short-run impacts on employment were significant and positive. In contrast, finds a negative effect of trade liberalization on employment in his analysis of trade policy reform in Uruguay in the late 1970s and early 1980s. They find evidence of increases in manufacturing employment following trade liberalization period in Costa Rica, Peru and Uruguay. The other three countries in the cited sample are transitional economies (Czechoslovakia, Poland and Romania) where employment fell during the transition period. As the authors note, however, those three countries were also undergoing other significant.

The Theory of Customs Unions and Free Trade Areas

As indicated in the introduction, there have been several attempts in the last 50 years to promote trade through the creation of regional trade agreements in the form of Customs Union and Free Trade Areas. The essence of a Customs Union is that it frees trade between members and imposes a common external tariff on imported goods from the rest of the world. In a free Trade Area, by contrast, barriers to trade are brought down within the Area, but there is no common external tariff. Countries are free to impose their own specific tariffs on goods from outside the Area, although often subject to agreement over the proportion of goods that must be purchased from within the Area. Customs Unions therefore create trade, but also divert in from lower cost suppliers to higher cost suppliers within the union. The interesting question is always whether the benefits of trade creation exceed the costs of trade diversion. Free trade area also create trade, but the extent of trade diversion is likely to be much less, with the presumption that on narrow economic grounds, at least, Free Trade Areas are superior. For the same reason, Customs Union are likely to be inferior to a policy of unilateral tariff reductions, and therefore need to be justified on other economic or non-economic grounds. MAN (1995-2003) suggest three channels through which regional integration could alter economic outcomes for the better. Firstly, a regional trade agreement entails a larger political community which might lessen the scope from adverse discretionary actions by governments, and in particular restrict the power of growth-retarding political interest groups, unless politically powerful lobbies can form alliances across countries. Secondly, when a regional institution is set up ab initio, better choices may be made then at the nation-state level, where policy-makers have to contend with existing institutions that accommodate institution, policy-making at the regional level will entail a compromise between those institutions and may lead to a superior outcome for at least some member countries. For example, if a Customs Union adopts its common eternal tariff, the average tariff of the Union, at least some members must benefit, notwithstanding the potential political-economic benefits, the World Bank is generally hostile to regional trading blocs because of their relative inward-looking nature.

Before we look at the empirical evidence on these matters, however, let us consider theoretically the gains and losses of Customs Unions. The analysis makes the same assumptions as classical trade theory: perfect competition; prices reflect opportunity cost; factors of production are immobile between countries; trade is balanced (i.e. no balance of payments problems), and the full employment of resources. The trade creation effect of a Union is composed of two parts: first a production effect which consists of the substitution of cheaper 'foreign' goods for domestic goods from within the Union, and secondly a consumption effect consisting of the gain in consumer surplus from cheaper goods. The trade diversion effect is also composed of two parts: firstly, the substitution of higher priced goods from within the Union for goods outside the Union, and secondly the loss of consumer surplus that this entails. The gains and losses for two partner countries within the Union are illustrated in figure 1. To simplify the analysis, scale economics and terms of trade effects are ignored.



D_1 and D_2 are the demand curves for a good in the two countries; $S_1 + M_1$ is the supply curve in country 1 consisting of the domestic supply curve and the supply of the good from the partner country which is assumed to enter duty free; and P_w is the world price. Now suppose that before the union of the two countries, a tariff of P_w

T_1 was the imposed in country 1 and P_w T_2 in country 2. In this case, it can be seen that demand equal supply in both markets; there are no imports from the rest of the world, we can focus of all on the process of trade creation.

A Customs Union now formed with a common external tariff (CET) that balances supply and demand of the two partners (equal to P_w CET). The CET is lower than OT, in country 1 and higher than OT@ in country 2. This has consumption and production effects in the two countries. In country 1 domestic consumption increases from N to Q, and domestic production decreases from S to L. In country 2, decreases from S to R and difference between supply and demand is exported to country 1. For country 1 there has been a cost saving equal to the area (ABD, and an increase in consumer surplus equal to the area ADC. The total gain of creation is equal to ABD + ADC. In country 2, there has been a loss of consumer surplus equal to area 'd' and an increased production.

Cost equal to area 'e' but this is more than offset by the increased export revenue of LEGQ, so country is also better off.Now let us consider the case where there is also trade diversion from the rest of the world.

Suppose that in country 1 the initial tariff level was lower than PWT. So demand exceeded supply and the excess demand was filled by imports from the rest of the world, MP, at price Pw. If a common external tariff was now introduced would fall from M to L with a reduction in production cost equal to are 'a'. There would be trade creation gains to 'a' + 'c' but now there is also trade diversion. Imports previously from outside the Union, would now come from the higher cost partner. MP imports from abroad would be replaced at the increase cost of MP x PW CET. This is the cost trade diversion.

In evaluating the net gains from a Customs Union, trade creation needs to be compared with trade diversion. In general, trade creation is likely to predominate over trade diversion, the larger the Union and the lower the common external tariff. The larger the Union, the greater the scope for trade creation, and the lower the CET, the trade diversion there is likely to be. It is possible, however, even if the Union as a whole is on balance trade creating, that at least one country may lose. Likewise, it possible for at lease one country to gain even if the Union as a whole is, on balance, trade diverting. Everything depends on circumstances. A customs union can be devised, however, which, raises the welfare of all members.

This required firstly that the common external tariff of the Union is set so that the level of post – Union trade with the rest of the world does not fall below its pre-union level, and secondly that lump-sum compensatory taxes and transfer are imposed to offset individual country losses.

Apart from trade creation and trade diversion, Customs Unions many also have other important effect associated with the enlargement of the market which are neglected by the static analysis presented above. Firstly, the large market may generate economic of scale. If there are economic of

scale, the supply curves in figure 1 will slope downwards, and the common external tariff can be lower than the original tariff in both partner countries. There will be a normal trade creation effect and a cost saving in both countries. Secondly integration is likely to promote increased competition which is likely to affect favourably prices and cost, and the growth of output. Thirdly, the widening of markets within a Customs Union is likely to attract international investment. Producers will prefer to produce within the Union rather than face a common external tariff they are likely to be inferior, in terms of welfare improvement, to a policy of unilateral tariff reductions (continuing to make the standard assumptions, of course, of trade balance, full employment etc). We can now illustrate this using figure 1. Suppose country 1 has an initial tariff level of PWT*. It enters a Customs Union with country 2 with a common external tariff CET, and trade to PWT* on a non discriminatory basis. It would enjoy the same trade creation gain, but now would be able to obtain import cheaper from the rest world. This means an addition from this theoretical analysis in that the formation of Customs Union represents a movement towards free trade, but even free trade (i.e no trade diversion) is better. The recent empirical evidence seems to support this view.

Empirical Evidence on the Growth Effects of Customs Union and Trade Liberalization

Up to now general experience of regional trade agreements in developing countries has been disappointing because they have been highly inward-looking and protectionist, with trade diversion exceeding trade creation. Typically, the existing ratio of trade to GDP has been high in the member countries and the ratio of trade with the rest of the world has also been high so that the scope for trade creation has been minimal and the potential for trade diversion has been great. In the Economic Community of West African State (ECOWAS), founded in 1975, the amount of inter-based integration initiative in African have so far made little or no contribution to trade or economic development. Foroutain (1991) concludes his study of regional integration in sub Saharan African (SSA) by saying "the structural characteristic of the SSA economies, the pursuit of import substitution policies, and the very uneven distribution of costs and benefits of integration arising from economic differences among the partner countries arising from economic any meaningful trade integration SSA" Of the seven or eight grouping SSA, only SACU has achieved any noticeable degree of integration in the market for goods. Otherwise intra-group trade has remained limited and stagnant. This conclusion is echoed by the authors of many of the applied papers in Oyejide, (2001) which examined the experience of regional integration and trade liberalization

in sub Saharan Africa.

Recent empirical work across developing countries as a whole supports this pessimistic conclusion as far as regional trade agreement are concerned, but finds that broad trade liberalization does lead to faster growth. Research by de Chete and Ade (1994) finds no evidence that regional integration among developing countries exerted a positive effect on income and growth, except in the case of the Southern African Customs Union (SACU) where favourable growth effects were found for Botswana, Lesotho and Swaziland. Stern (2002) takes 109 cases of participation in 18 regional trade agreements over the period 1950 to 1992 and concludes that their impact on the growth rate of members has been negative. Vamvakidis also takes 51 cases of broad liberalization and find that countries have grown faster after liberalization. Two measures of liberalization (or trade openness) are used. One is the standard measure used in much of the 'new' growth theory literature of the ratio of total (export + imports) to GDP. The second is the so-called Chete (1994) ratio of openness. Sachs and Warner defines an economy as 'open' if all five of the following condition are met:An average tariff rate of less than 40 percent;Average non-tariff barriers equipment to a tariff rate if less than 40 percent;A black market exchange rate premium of less than 20 percent;No communistic government, and No state monopoly of major exports.

These criteria can be used for pin-pointing the precise year(s) trade openness for a country. The procedure for testing the effect on growth of trade liberalization, or belonging to a regional trade agreement (RTA), is to specify a cross-country growth equation of the forming = a + b_1 (initial GDP per head) + b_2 (population growth) + b_3 (Schooling) + b_4)growth of world GDP) + $B_5 D_1$ + $B_6 D_2$Where D_1 is a dummy variable if the country participates in an RTA; and D_2 is a dummy variable for both measures of trade liberalization is positive and significant. The result suggest that after liberalization countries grow faster on average by 1.5 percentage points, and that an increase in the trade share by 10 percent leads to an increase in the growth rate by 0.56 percentage points. Estimating the same equation across countries participating in RTAs shows the RTA dummy variable and negative. The same results emerge when the share of investment in GDP is taken as the dependent variable. After liberalization, the investment share. The negative result for RTAs must result from the fact that, on balance, trade diversion is more powerful than trade creation.

In other work, has tried to estimate the effect on growth of the size and openness of neigbouring countries, and finds that countries which have neigbours with large open economies experience faster growth. Openness matters more than size. Being near a developed country also has a positive spill-over effect. In both respects, sub-Sharan African is at a disadvantage, consisting as it does of mainly small and highly protected economies relatively remote from the industrialized economies of Europe and North America.

The current economic literature predominantly reflects the view that trade liberalization is an effective growth strategy; however, arguments for industrial protectionism were equally prevalent until the 1980s. At least 42 developing countries experienced per capita income grow rate of over 2.5 percent between 1960 and 1973, and 33 of these countries adopted import substitution industrialization (ISI) policies (UNDP, 2003). The apparent success of inward-oriented strategies provided considerable support for protective trade regime.

A turn of events in the 1970s undermined confidence in ISI policies. To begin with, two studies provided evidence to suggest that high and dispersed effective rates of protection led to static inefficiencies in manufacturing sectors of inward-oriented economies. Although later research identified similar inefficiencies in open economies, the initial finding were shocking enough to fundamentally challenge the virtues of protectionism. Public opinion changed further when few (ISI) countries were able to sustain their strong performance following the 1973 oil crisis. Contrary to their robust pre-shock growth, Middle East and South America countries entered a period of economic decline while East Asian countries remained stable and South Asia countries became the new leaders in growth (UNDP, 2003).

Despite their appeal, studies linking trade to growth have elicited significant criticism. Skeptic challenge the methodological foundation of these arguments. In particular, Olofin,et,al (2001) question the accuracy of "openness" or 'globaliser' measures, the basis for determining causality, and the validity of econometric methods popularly used in cross country regressions. Case studies focusing on individual country experiences of successful outward-oriented growth have circumvented many of the problems of cross-country comparison and strengthened arguments for trade liberalization. However, the process of generalizing these specific results is problematic although scholars generally accept that trade liberalization can generate economic benefits, some strong advocate the need for adopting other policies to sustain trade reform gains in the long-term. Proponents of this view note that even the East Asian 'tigers' used protective practice to kick-start growth in their economies before later taking advantage of trading opportunities through a combination of export-promotion strategies (UNDP, 2003). Recommendations of the appropriate complementary measures include policies targeted at issue of corruption, inflation, and investment; nothing that the effects of various policies are often mutually reinforcing. Other studies stress the role of supportive institutions in protecting the economy from changes in internal and external factors.

Measured support for protectionism has resurfaced through arguments for 'selective industrial policy' which emphasize the important of careful prioritization and sequencing of reforms . Additionally, experiential

evidence from the 'two-track approach' used by China has also strengthened the case for some strategic protectionism.Studies on trade reform in Africa highlight the complexity of sustaining reform policies. points to past histories of policy reversal as a cause for African governments' bad reputation in the international community. He recommends the used of commitment mechanism as 'agencies of restraint' to 'look in' reform policies and rebuild credibility. Meanwhile, other analysts emphasize the importance of considering political economy aspects in the African context, such as – rural income redistribution, government indiscipline, and information deficiencies.

The Nigerian economy remained under pressure despite the economic empowerment and development measure put in place to enhance the efficiency, sustainable growth, development and poverty reduction. Some of the measures undertaken by the managers of the economy seemingly brought about an increase in Gross Domestic Product (GDP) growth rate which was projected at 5 percent in the 2003 budget, but which has been variously started to be somewhere 3.5 percent and 10.2 percent.

Nigerian Economic Performance in 2003

There were mixed development in the economy in 2003. For us to appreciate the economic performance of the economy in 2003, it will be nice to review the policy thrust of 2003 Federal Government Budget was to stimulate growth and stability in the economy in order to move the country forward especially in reducing the level of poverty. The specific targets were:

- ❖ Reduction in fiscal deficit to not more than 2.5% of GDP
- ❖ Deepening incentives to encourage manufacturing foreign Direct Investment
- ❖ Deregulation of the downstream sector/privatization
- ❖ GDP growth of 5%
- ❖ Single digit inflation rate.

However, in 2003, the following targets were achieved:The growth in the economy as measured by the Gross Domestic Product (GDP) revealed a decline to 3.5 percent as earlier stated by the CBN, but subsequent review has given a growth rate of 10.2 percent as against 3.9 percent in 2002. This new revised figure is above the 5 percent targeted for 2003. The revised improved performance was attributed to improve performance in both the oil and non-oil sector. Agricultural sector contributed substantially to the growth non-oil GDP. This was enhanced largely by the favourable harvest reported by the sector coupled with temporary import prohibition on some selected agricultural products. In addition, there was a substantial increase in crude oil production, owing largely to the increase in the country's OPEC quota and production of condensate and gas. The twelve month average rate of inflation as released by the Federal Office of Statistics increased from 12.9 percent in 2002 to 14 percent in 2003, as against the single digit rate proposed. The upward trend in inflation rate was attributed to structural rigidities, increase in the prices of local products, and increase in the price of petroleum products, which had negative impact on the cost of transportation and domestic production. The continued depreciation in the exchange rate coupled with excess liquidity experienced in the banking sector during the year also contributed to the increase in inflation rate.

In 2003, the Federal Government introduced a guided deregulation of the downstream oil sector. This gave a free hand to marketers to import and sell petroleum within a ceiling fixed by the government. Fuel prices for instance was between N39.00 per litre – N41.50 per litre. One can imagine the damaging effect of that major increase in price on transportation, goods and services as well as general overhead expenses of a manufacturing concern. The manufacturers Association of Nigeria supports that the oil sector should be properly deregulated after repairing and reactivating our crude oil refining capacity and not merely price deregulation as currently done.

Similarly, the telecommunication industry was deregulated in 2003 with further GSM licences being granted. As a result of this, we now have over 2.5 million lines within two years, up from 450,000 landlines existing under the NITEL monopoly. Current indications point to an increase up to 4 million lines by end of 2004. on the other hand, the domestic economy in 2003 was characterized by the same problems as in year 2002. There are:

Excessive monetary expansion: This gave rise to high demand pressure in the foreign exchange market and persistence depreciation of the Naira in all segments of the market. The demand for foreign exchange increased persistently, while the substantial allocation to raw materials importation and services did not reflect in improved sectoral performance especially in the manufacturing sub-sector.

At the Dutch Auction System (DAS), the Naira exchange rate was N129.36 per US dollar on the average in 2003, showing an increase of N8.86 per US dollar when compared with 2002 figure of N120.50 per US dollar.

In general, the economy was sluggish in 2003, while unemployment, especially university graduates

and high school leaves continued to worsen. This is because, the massive turnout of graduates from the various educational institutions have not been matched by complementary creation of employment expected from the industries and other employers of labour. This remained a source of various policies and programmes such as poverty alleviation programme; all these failed to yield the desired result in terms of increased employment.

Again, Nigeria being a monocultural economy, the Federal Government finances its activities mainly from the proceeds realized from the exportation of crude oil. The continued excessive reliance on crude oil as the nation's main foreign exchange earner has subjected the external sector and indeed the whole economy to the vagaries, of developments in the international oil market.The overall performance of the oil sector in 2003 was an improvement over the 2002 performance due to increase in world market price of crude oil. The average price of crude oil first half of 2002 to US$29.0 per barrel in November 2003.

A review of the capital market in terms of market turnover showed that out of the twenty most active stocks published in 2003, only four manufacturing firms were listed, the remaining sixteen firms were banks. This goes a long way buttress the relatively poor performance of the manufacturing sector stock markets.In 2003 also, the Federal Government floated N150 billion development loan stock to finance its projects. The loan stock was however under subscribed.Average lending rate was quite high in 2003 as against the downward review of Central Bank's Minimum Rediscount Rate to 15 percent with 4 per differential. An average of 29 to 30 percent was recorded rates could be fingered as a militating factor against industrial growth and expansion.

Economic Prospects for 2004

The outlook for 2004 is promising. With the current economic team in palace, we expect the economy to be better managed and tailored to service the needs of the people and the economy in general.This is in line with the macroeconomic targets as indicated by the government in the NEEDS document and Budget statement for 2004. These indicators are:

* Real GDP Growth of 5% percent
* Percentage reduction in poverty incidence of 5 percent.
* One million minimum number of new jobs to be create.
* 4.83 percent growth in real consumption expenditure
* 10 percent inflation rate.

For instance, as a measure of Federal Government's commitment to positively affects the lives of the vast majority of the Nigerian people and the industrial sector as a whole, about 60% of the total capital allocation of budget 2004 is devoted to improvement in Infrastructure and Agriculture.Infrastructure deficiencies have been the greatest source of worry to manufacturers and the economy in general. There is no doubt that with proper policy focus and packaging on infrastructure in 2004 budget, the economy should respond through measurable and sustainable growth. There are positive prospects of greater performance of all the sectors in 2004 especially within the manufacturing and agricultural sectors. Similarly, there are prospects of better performance in the construction sector with government plan to complete all abandoned project in 2004.

In addition there is an increased hope that the manufacturing sector will be able to meet greater challenges of an increasingly competitive environment and improve on its share of the Gross Domestic Product, capacity utilization, employment generation, new investment, production output, reduced stock level of finished inventory and ultimately profitability. Apart from this, there is a greater focus on the manufacturing sector, as the Government expects 60% capacity utilization from manufacturers in 2004.2004 also promises to steer the economy towards greater self-sufficiency in goods production and the export of non-oil commodities. For instance with current review of Export Expansion Grant (EEG) in the following order from:

5% to 10% primary product

20% for intermediate product

40% to 30% for finished products and additional incentive from the Nigerian Export Enhancement Scheme, there is hope that more manufactured product would be exported during the year and years ahead. The economy has always been characterized with late release of funds to execute capital projects and also poor implementation schedule, 2004 budget has its priority of early release of capital budget and about 80% implementation schedule.

Again, government decision to effect early payment of salaries and pensions will economically empower Nigerians and reduce the level of poverty in the economy. This would have increased the purchasing power of an average Nigerian and even reduce the high incidence of recent increase in petroleum products, the expected benefit would be eroded.Greater domestic utilization of raw materials is also in sight through import restriction/prohibition of some imported products. However, government is being requested to clarify the Import Restriction/Prohibition Policy, as it affects raw materials not locally available.

There are sign of relative stability in exchange rate for 2004 as government target the exchange rate of N136 per US$.On the other hand, price instability has already surfaced within the first half of the year. Instead of inflation rate of 10-11 percent targeted in 2004, inflation rate has already been quoted as 18%. One doubts whether the Gross Domestic Product percentage target of 5 percent would be achieved.

Poverty level remained high in 2003, as the government's poverty intervention programmes were yet to prove effective. However, 2004 presents government greater challenge to alleviate poverty as it puts the priorities of the average Nigerian at the Centre of focusing on job creation and employment generation.

PERFORMANCE INDICATORS IN THE MANUFACTURING SECTOR FOR 2007

The manufacturing sector has been variously stated as the life wire of many economy. Thus, the need to promote a virile manufacturing sector has continued to be a major concern of most government world wide. The reason for it can be attributed to the fact that an increase in production creates prospects of a growing availability of local manufactured products, increased employment, greater efficiency and improved balance of payment.
Unfortunately, the Nigerian economy still lacks the capacity to execute formulated policies that will nudge the manufacturing sector to the expected growth level. The manufacturing sector in 2007, had a slow growth as reflected in some basic economic indicators.

Capacity Utilization

The average capacity utilization among manufacturers reduced from 50.1 percent in 2005 to 46.7 percent in 2007. On the sectorial basis, Food Beverage and Tabacco equally recorded a reduced capacity utilization this from 41.1 percent in 2005 to 32.1 percent in 2007. The reduction in capacity utilization in the manufacturing sector as a whole was largely caused by depleting and deficient infrastructure facilities, dearth of long term fund, expensive working capital, structural rigidities in the economy and influx of imported cheap/substandard finished products into the country.

AVERAGE INDUSTRIAL CAPACITY UTILIZATION (5)

S/N	SECTORS	JUN-JUN 2005	JUL-DEC 2005	JAN-JUN 2006	JUL-DEC 2007
1	FOOD BEVERAGE & TOBACCO	41.0	41.1	35	32.1
2	TEXTILE APPAREL & FOOTWEAR	54.6	63.1	62.0	46.4
3	WOOD & WOOD PRODUCTS	43.6	46.2	46.8	54.7
4	PULP, PAPER, PUBLISHING	57.5	54.3	53.1	53.8
5	CHEMICAL & PHARMACEUTICAL	50.3	53.3	64.6	47.4
6	NON-METALLIC & MINERAL PRODUCTS	48.6	51.51	54.0	61.0
7	DOMESTIC/INDUSTRIAL PLASTIC & RUBBER	52.8	54.4	41.2	59.6
8	ELECTRICAL & ELECTRONICS	40.5	41.7	38.4	27.8
9	BASIC METAL, IRON & STEEL	48.2	51.1	52.2	45.4
10	MOTOR VEHICLE & MISCELLENEOUS ASSEMBLY	40.1	42.5	31.5	28.8
	AVERAGE	50.1	52.5	50.8	46.7

Gross Domestic Product (GDP)

The manufacturing contribution to the Gross Domestic Product (GDP) increased marginally by .07% in 2005, over the preceding years growth rate 4.68 percent. The reason for this is not far fetch. Manufacturers continued to incure high cost of production, precisely due to deficient infrastructure, multiple levies from the three tiers of government, problems associated with port administration and delays occasioned by lapses in pre-shipment inspection of import etc. Supply of only 43.69 percent and alternate source of energy as 56.37. A situation like this does not encourage either production or investment, rather it leads to increase in the cost of production with its multiplier effect of increase in price of finished products and low demand. Consequently, the manufacturers association of Nigeria has set up an infrastructure committee to meet with government and look into means of providing adequate infrastructure facilities, which in turn would increase the efficiency of manufacturers.

ENERGY SUPPLY STITUATION TO INDUSTRIES FROM JULY – DECEMBER 2007

S/N	SECTOR	AVERAGE SOURCE OF ENERGY SUPPLY (PERCENTAGE) NEPA	ALTERNATIVE SOURCES	AVERAGE POWER OUTAGE FROM NEPA PER DAY HOURS
1	Food Beverages & Tabacco	41.2	59.4	14.36
2.	Textile Wearing Apparel & Footwear	40.3	59.7	14.33
3.	Wood & wood products	43.8	56.3	13.51
4.	Pulp, Paper, Publishing	35	65	15.6
5.	Chemical & Pharmaceutical	37.7	62.4	14.98
6.	Non-Metalic & Mineral Products	50.2	49.7	11.98
7.	Domestic/Industrial Plastic & Rubber	49.5	50.6	12.14
8.	Electrical & Electronics	45.8	54.2	13.01
9.	Basic Metal, Iron & Steel	56.1	43.9	10.510.
	Motor Vehicle & Miscellaneous Assem	37.3	62.5	15
	Sectoral Average	43.69	56.37	13.5

ENERGY SUPPLY STITUATION TO INDUSTRIES FROM JULY – DECEMBER 2007

S/N	SECTOR	AVERAGE SOURCE OF ENERGY SUPPLY (PERCENTAGE) NEPA	ALTERNATIVE SOURCES	AVERAGE POWER OUTAGE FROM NEPA PER DAY HOURS
1	Oyo/Osun/Ondo/Ekiti States	53	47	11.28
2.	Edo/Delta States Footwear	39.3	60.7	14.57
3.	Anambra/Enugu States	43.1	56.9	13.66
4.	Kano State	24.5	75.5	18.65
5.	Bauchi/Benue/Plateau	52.5	47.5	11.4
6.	Ogun State	22.3	77.7	18.65
7.	Imo/Abia States	33.2	66.6	16.03
8.	Kaduna State	44	56	13.44
9.	Rivers State	45.5	54.5	13.44
10.	Lagos states	48.3	51.8	12.42
	State Average	40.57	59.44	14.26

Manufacturing Funding Requirement/Rate of Interest

The manufacturing sector has continued to experience low level of bank credit. This has hampered development in the sector. The banking sector instead of financing the working capital requirements/expansion plan of the manufacturing sector has continued to finance fully LPO of importers with little or nothing going to the main real sector of economy. Even when given, the interest rate has been too high.

A survey on the manufacturing sector funding requirement showed that a total of N355.1 billion was required by manufacturer for both working capital and expansion purposes.

Out of this figure N135.7 billion was required for working capital while N219.40 billion would be needed for expansion purposes. The survey also gave the preferred rate of interest by manufacturers as 9.83 percent as against the average existing rate of 22% which limited the investment capability of the manufacturing

sector, frustrating growth and reducing employment opportunity.

MANUFACTURING SECTOR REQUIREMENT/RATE OF INTEREST

S/N	SECTOR	AVERAGE FUNDING	REQUIREMENT T(N BILLION)	AVERAGE PREFERRED RATE OF INTEREST(%)	AVERAGE EXISTING RATE OF INTEREST (%)
		Working Capital	Expansion		
1.	Food Beverages & Tabacco	44.0	31.1	10.6	30.2
2.	Textile Wearing Apparel & footwear	29.7	5.7	10	29.5
3.	Wood & wood Products	3.0	6.1	5	28.1
4.	Pulp, Paper, Publishing	9.7	34.30	10.4	28
5.	Chemical & Pharma.	2.8	41.90	10.6	31
6.	Non-Metallic & Mineral Products	1.0	16.6	10.7	29
7.	Domestic/Industrial Plastic & Rubber	12.2	39.7	10.7	29
8.	Electrical & Electronics	3.1	9.9	10	28.5
9.	Basic Metal, Iron & Steel	22.3	26.9	10	30
10.	Motor Vehicle & Miscellaneous Assem	7.9	7.2	10.3	1
	Total Sectoral Average	135.7	219.40		30

MANUFACTURING EMPLOYMENT

Due to the increased influx of cheap/sub standard finished products which has reduced the demand for local products with its consequent reduced capacity utilization and high stock of inventory, the share of the manufacturing sector in employment generation continued to fall. Aggregate manufacturing employment by sectors reduced from 1,395,419 in 2005 to 1,310,557, thus worsening the level of poverty, which the government and all concerned Nigerians are trying to fight.

AVERAGE INDUSTRIAL CAPACITY UTILIZATION (5)

S/N	SECTORS	JUN-JUN	JUL-DEC	JAN-JUN	JUL-DEC
		2002	2002	2003	2003
1	FOOD BEVERAGE & TOBACCO	371,871	372,209	379,565	322,630
2	TEXTILE APPAREL & FOOTWEAR	99,856	80.392	81,631	88,088
3	WOOD & WOOD PRODUCTS	167,541	165,814	165,814	166,892
4	PULP, PAPER, PUBLISHING	162,300	152,863	152,768	128,172
5	CHEMICAL & PHARMACEUTICAL	162,436	142,896	147,908	122,468
6	NON-METALLIC & MINERAL PRODUCTS	100,231	94,038	94,562	101,181
7	DOMESTIC/INDUSTRIAL PLASTIC & RUBBER	149,428	148,302	145,817	158,066
8	ELECTRICAL & ELECTRONICS	75,136	76,000	75,832	69,318
9	BASIC METAL, IRON & STEEL	99,650	87,149	88,205	82,181
10	MOTOR VEHICLE & MISCELLENEOUS ASSEMBLY	67,217	75,746	73,585	71,561
	TOTAL	1,445,664	1,395,419	1,405,687	1,310,557

Gross Domestic Product (GDP)

INVESTMENT BY SECTOR

A survey on investment by sectors showed that component of investment (i.e. January – June 2007) gave an indication that upon the harsh economic environment that local manufacturers were operating on, manufacturers still have confidence in the economy and believed the outlook of the future to be promising. For instance, investors in food, beverage, and tobacco sector increased their level of investment in all areas. However, areas of least confidence were in Wood, paper, and electrical sector. The case in Electrical Sector is very critical as the low investment was attributed to business frustration caused by low patronage, influx of imported cheap/substandard products and smuggling.

INVESTMENT BY SECTORS & TYPES JANUARY – JUNE 2007 (N' BILLION)

S/N	SECTOR	LAND & BUILDING	PLANT & MACHINE	EQUIPM	SPARE	RESEARCH & DEV.	VEHICLE	OTHER
1.	Food Beverage & Tabocco	1,0097.84	1,320.72	271.39	234.74	12.29	271.72	123.74
2.	Textile Wearing Apparel & Footwear	44.49	152.62	12.14	11.94	4	9.32	7.35
3.	Wood & wood products	13.5	2.5	0	0	0	1	0
4.	Pulp, paper, publishing	5	5	5	6.37	0	5.5	0
5.	Chemical & pharmaceutical	155.64	418.83	154.86	84.44	52.85	68.55	251.82
6.	Non-Metallic & Mineral Prodcuts	11.75	128	96	0	0	2.8	0
7.	Domestic/Industrial Plastic & Rubber	20.5	485.46	3	10	5.2	11.49	0.93
8.	Electrical & Electronics	2.5	30	0	0.3	0.45	3	0.7
9.	Basic Metal, Iron & Steel	145.52	349.52	25.15	19.96	10.96	38.48	220.17
10.	Motor Vehicle & Miscellaneous Assembly	115.46	219.53	268.47	125.76	2.57	233.98	0
	Total	1,612.20	3,112.18	836.01	493.51	88.31	645.84	604.71

CONCLUSION

I conclude that the economic reforms outlined in the NEEDS documents if effectively implemented will surely invigorate the economy and put it on the path of sustainable growth and development. The Manufacturers Association of Nigeria supports this fully and is committed to the sustainable development, progress, prosperity and political stability of the country. In the overall performance of the Nigerian economy was modest as indicated in the above stated economic indicators.

RECOMMENDATIONS

Based on the findings of this study as summarized above, the following recommendations are now made.To increase capacity utilization and make it significant, power supply must increase. The current energy crisis in the area of power outages must be urgently addressed. This causes high cost of production which is indirectly shifted to the final consumers. The Electric Power Sector act 2005 seems to be the only solution if all it's sections are adequately implemented.

Efforts must be made to reduce the level of interest rate in order to increase investment in the economy.Phased implementation of WAEMU CET (over 5 years),Complementary policies (including: nominal depreciation in the value of naira institutional reform of related regulatory agencies, especially customs, reduction in use of tariff waivers, exemptions and concessions, and improvement in business climate).

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